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TD Economics

Data Release: Investment intentions point to slightly higher capital spending in 2017

- Following a dismal two years, capital spending in Canada is expected to edge up by 0.8% in 2017. The increase will be driven by the public sector, which intends to increase investment by 4.9%. Meanwhile, intentions by private sector organizations suggest a decline in spending of 1.6%.
- Investment in the oil and gas sector is expected to turn a corner this year, rising by 2.3%. The bulk of the increase will stem from construction projects in the conventional oil and gas industries in Alberta, Saskatchewan and British Columbia.
- Elsewhere, only 7 of 20 industries intend to increase capital spending in 2017. Public administration (+10%) is expected to lead the way, followed by the real estate, rental and leasing sector (+8%). On the flipside, businesses in the retail trade (-7%), wholsesale trade (-6%), arts, entertainment and culture (-6%) and manufacturing (-4%) sectors intend to spend less this year.
- Regionally the picture is mixed. Ontario (+4%), Quebec (+5%), BC (+3%) and Saskatchewan (+3%) are expected to record an increase in capital spending, while lower investment is expected in Alberta (-2%), Manitoba (-4%) and the Atlantic Provinces.

Key Implications

- Overall, this morning's report suggests that Canadian capital investment should bode well for economic growth this year. In fact, even a stabilization in spending at 2016 levels would be supportive of growth, as it would remove a key source of drag from the growth equation.
- The oil and gas sector has been a key source of weakness in capital investment over the last two years. However, given the significant spending cuts that took place over the last two years and oil prices holding steady above the US$50 per barrel mark, further downside in the industry is unlikely. Moreover, spending on sustaining capital, as well as some new projects that are set to ramp up this year, are expected to keep a floor under investment in the sector.
- While the worst is likely in the rear view mirror on the capital spending front, there is still a great deal of risk surrounding the outlook. It is likely that the lack of clarity regarding the future of the Canada-U.S. trade relationship at present may be holding back capital investment. Indeed, should trade negotiations go poorly, it is possible that business capital spending may come in short of the expectations reported today.

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